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SUBJECT: EU'S PROPOSED COPENHAGEN STRATEGY TARGETS OECD
COUNTRIES, GIVES DEVELOPING WORLD A BIT OF A PASS

REF: A. BRUSSELS 117
¶B. BRUSSELS 190
¶C. BRUSSELS 1171
¶D. BRUSSELS 1439
¶E. BRUSSELS 1629
¶F. BRUSSELS 1686
¶G. BRUSSELS 1770
¶H. ROME 141

¶1. (SBU) Summary: The EU Commission's Communication proposing the EU's approach for the UN climate change negotiations recommends strong emissions reduction ommitments and funding from developed countries, but suggests only "actions" (rather than commitments) from developing countries, including the major emerging economies. The Communication is not final EU policy, and the Member States will continue to debate the issue in the run-up to the December UNFCCC in Copenhagen. However, EU Member States will likely adopt a framework for their approach in mid-March, defining the best window of opportunity for U.S. leadership to influence the outcome.

-- The Communication focuses on (1) binding commitments for developed countries based on emissions and GDP per capita and "actions" for developing countries, (2) financing for mitigation and adaptation, most of which to come from the developed world, and (3) development of a global carbon market;

-- Several Member States expect changes in the final conclusions, as several do not agree with the decisions taken by the Commission, notably on financing and lack of binding commitments for developing countries;

-- Several non-European OECD countries are also initially at odds with aspects of the proposal, and have indicated they welcome cooperation with the United States.

-- EU Member States welcome U.S. leadership en route to Copenhagen, and an opportunity exists to drive the debate in

Europe, at least through mid-March. End Summary.

Overview

¶2. (SBU) The EU Commission on January 28 released a Communication entitled "Towards a Comprehensive Climate Change Agreement in Copenhagen." It details the steps the Commission, led by DG Environment, believes should be taken to achieve an effective agreement under the UN framework. This Communication is not binding for the EU, but sets out the Commission's approach which, after elaboration by the 27 EU Member States (including by Heads of State and Government at the March 19-20 European Council), will be incorporated in a negotiating mandate that the Council will have to approve.

¶3. (SBU) The Commission addresses what it calls the three key challenges: (1) targets for developed countries and actions by developing countries, (2) financing both mitigation and adaptation, and (3) building an effective global carbon market outside the UN framework. The Communication uses details from and builds upon the EU's newly-adopted Climate and Energy Package, which implements the EU's "20-20-20 in 2020" climate targets. (See reftels for details on the Climate and Energy Package.) The goals set forth by the Communication build upon the EU's agreed objective to limit the average global temperature increase to less than 2 degrees C compared to pre-industrial levels though a global greenhouse gas (GHG) emissions reduction of 50% from 1990 levels by 2050.

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Developed World asked a lot, Developing not bound to act
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¶4. (SBU) To achieve the goal to reduce global emissions by 50% from 1990 levels by 2050, the Commission expects reductions for developed countries in the range of 25-40% by 2020 and 80-95% by 2050, with global emissions peaking by
¶2020. The Commission states that developed countries should undertake binding emissions reduction commitments, though developing countries are asked only to undertake "nationally appropriate actions" that will limit emissions growth to 15-30% below baseline by 2020. Using the accepted Kyoto base year, 1990, the Commission reinforces the concept that countries should be allowed to use the more accurate statistics from recent years, as the EU has done with 2005 in the Climate and Energy Package, but emphasizes that this should not be used to "water down" emission reduction efforts. To enforce these targets and actions for all countries, the Commission argues that monitoring, reporting, and verification (MRV) should be improved.

¶5. (SBU) Developed countries, according to the Communication, are expected to handle the brunt of near-term emissions reductions. However, the list of developed countries, at least according to the Commission, has increased from the days of Kyoto. Taking into account economic and geo-political changes since 1997, the Commission argues that the Copenhagen agreement should consider as developed countries all Annex I countries under the UNFCCC, all OECD member countries, and all current EU Member States, EU candidate countries, and potential candidates. Within the EU, this means Malta and Cyprus are now to be given binding targets, but both countries already anticipated this as they were issued binding targets as part of the Climate and Energy Package. Farther afield however, this new definition includes Korea and Mexico, both current OECD countries, but defined as developing countries under the Kyoto framework.

¶6. (SBU) To determine the contribution of each developed country towards the global emissions target, the Communication proposes the following four criteria which it

calls "fair and ensuring comparability of efforts:"

-- GDP per capita: reflecting the capability to pay for domestic emission reduction and to purchase emission reduction credits from developing countries;

-- GHG emissions per unit of GDP: also known as GHG efficiency, indicating the domestic GHG emission reduction potential;

-- Trend in GHG emissions between 1990 and 2005: recognizing domestic early action to reduce emissions;

-- Population trends over the period 1990-2005: taking into account the link between the size of the population and total GHG emissions.

¶7. (SBU) Despite the Commission's claim that this ensures a "fair" distribution of the GHG-reduction, a closer look at the proposed reduction values shows non-EU developed countries bear a larger burden. The EU, on the surface, sets itself up very strongly, committing to a 30% reduction from 1990 levels. To reach the IPCC goals, the Commission then recommends (in its supporting staff working paper, not in the formal Communication) that the U.S. reduce by 24%, the same totals for Australia and Japan, and Canada by 23%. However, when compared relative to 2005, it becomes clear that the EU

is taking an easier path than all proposed countries except for Ukraine and Russia. The EU's target relative to 2005 is only 24%. The Commission gives itself substantial credit for emissions reductions between 1990 and 2005, a fact that owes much of its basis to the large emissions reductions in Eastern Europe resulting from post-Soviet deindustrialization. By contrast, the Commission proposes reductions relative to 2005 of 34% for the U.S., 39% for both Australia and Canada, and 29% for Japan.

¶8. (SBU) In contrast to the binding targets proposed for developed countries, the Commission states that it does not believe binding targets should be applied to the developing world. Instead, with the exception of Least Developed Countries, which should take no actions, the Commission asks developing countries to undertake "nationally appropriate actions" to limit emissions growth to 15-30% below baseline by 2020 and to commit to adopting low-carbon strategies by the end of 2011. Actions to be included in this strategy, according to the Commission, should include a rapid decrease in deforestation, reducing global deforestation by 50% by 2020 compared to current levels and by 2030 completely halting global forest cover loss.

Financing falls on shoulders of West, much to the U.S.

¶9. (SBU) The Commission has assessed that it will cost roughly 175 billion euro per year by 2020 to address global emissions reductions, with over half of that value needing to be invested in developing countries. In addition, using information from the UNFCCC Secretariat, adaptation costs in developing countries are expected to range between 23 and 54 billion/year in 2030. The Commission argues that developed countries should provide much of the necessary financing to support mitigation actions in the developing world. In fact, Environment Commissioner Dimas stated bluntly that "no money, no Copenhagen deal," and that he believes the political will exists in the United States to bring money to Copenhagen. According to the Commission, the preferred approach is a formula based on a combination of the polluter pays principle (according to allowed emissions per capita) and its ability to pay (GDP/capita). As the United States has one of the largest GDPs per capita combined with the highest emissions in the developed world (40% of emissions according to the Communication), the Commission will ask the Uited States to

take the largest portion of the financing burden for the developing world, in addition to the financial action necessary to address emissions reductions domestically. Key to this discussion, other than distinguishing Least Developed Countries and Small Island Developing States, the Commission makes no distinction among the other developing countries, grouping China and India in with the rest.

En route to a global carbon market

¶10. (SBU) Having just completed the first phase of its Emissions Trading Scheme (ETS) and successfully passing the revisions for the ETS phase beginning in 2013 as part of the Climate and Energy Package, the Commission states that carbon markets are critical not only to addressing global climate change, but also to financing it. To that end, the Commission calls for the development of a global carbon market as soon as possible, though it says that these discussions should take place in parallel to the UN negotiations. Using ETS as the basis, the Commission would like to see the development of cap and trade systems in all

OECD countries by 2013 and linking them together for an OECD-wide carbon market by 2015. This wide-spread market should then be extended to include "economically more advanced" developing countries-not further defined-by 2020. Focusing directly on the United States, the Commission seeks to put in place a U.S.-EU working group on the design of carbon markets. (Note: It appears the EU is convinced that a U.S. cap and trade system will be completed soon, with Commissioner Dimas going so far as to tell the European Parliament to "expect" a U.S. system by the end of 2009. End note.)

¶11. (SBU) In preparation for linking U.S. and EU carbon markets, the Parliament commissioned a report, published in January 2009, analyzing the possibilities of linking ETS with any future U.S. system. The report uses as a basis the Lieberman-Warner bill from 2007 and generally concludes that most aspects of a U.S. cap and trade bill are likely to be compatible with ETS. However, it does acknowledge that the form of any U.S. legislation is as yet unknown, so it is not 100% clear what the reality will be.

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Early Council Conclusions similar, but could change quickly
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¶12. (SBU) As noted, the Communication represents only the Commission's recommendations for the approach the EU should take toward the UNFCCC negotiations; the Council of Member States will have the final say on the EU's position. Commission and Finnish PermRep officials confirm the EU intends to speak with one voice in the UN negotiations (although the Member States will also be represented in their own capacity, particularly on issues remaining within their competence), so the final Council conclusions will have a strong bearing on the direction of the EU.

¶13. (SBU) The Member States have begun reviewing the Communication in the Council working groups in preparation for forthcoming Council meetings of EU member state ministers. The Environment Council will have the first cut during its meeting on March 2. The following week, on March 10, the Economic and Finance (ECOFIN) Council will have its say, with Finance Ministers addressing the financial and economic aspects of the proposal. Finnish and Italian officials have indicated they expect disputes between the two sets of ministers, given the ECOFIN's focus on the current financial crisis. The opinions of both Councils will feed into the March 19-20 European Council of Heads of State and Government, at which point the first consolidated EU position should be released. This position likely will be an overall

framework for EU policy, although the Finns explained that the June European Council will likely determine more of the specific positions. Swedish officials also told Embassy Copenhagen and Embassy Stockholm EconOffs to expect the EU position to remain fluid until March and to be locked down in June. It is likely that the Energy Council and the Development Cooperation Council will look at the proposal during February and March meetings, but the outcome of these Councils are likely to carry much less weight than either the Environment or EcoFin Councils.

¶14. (SBU) An early draft of the Environment Council conclusions that the EU Member State Ministers would adopt in March is similar to the Commission's Communication, confirmed by Embassy Prague as the official position from the Czech government. However, some Member States are not comfortable with the current text and expect there will be several changes before the European Council on March 19-20. The draft conclusions, dated February 6 and after one round of

revisions, reaffirm the 2 degree C target and the need for global emissions to peak by 2020 and be reduced by at least 50% by 2050 as compared to 1990 levels. The draft also argues that developed countries should collectively reduce emissions by 25-40% by 2020 and 80-95% by 2050, with developed countries defined slightly differently, leaving much more room for discussion: all Annex I countries, non-Annex I parties at levels of development comparable to developed countries, and all EU Member States, EU candidate countries, and potential candidate countries. In the same vein, the draft leaves the discussion for comparability a little more open, stating that developed country targets should be guided by considerations of capability and responsibility, which could include the four criteria defined in the Communication. The draft also supports the development of an OECD-wide carbon market, "as soon as practicable," but preferably no later than 2015, while improving the Clean Development Mechanism (CDM) to strengthen its environmental integrity. Dutch officials acknowledged to Embassy The Hague EconOff that the United Statesholds a more skeptical view of the CDM than the EU does. The Dutch said that although the EU considers the CDM as a crucial transiitional instrument, the Council conclusions may include language that the CDM should be phased out and only apply to Least Developed Countries.

¶15. (SBU) The draft Council conclusions also take a similar view of the role of developing countries, but again, the early draft leaves more opportunity for debate than does the Communication. Accepting that developing countries, as a group, should reduce emissions to 15-30% below business as usual by 2020, the Council also believes these countries should commit to adopt low-carbon strategies rather than accept binding commitments. Following the line of the Communication, the draft conclusions also call on developed countries to fund global mitigation and adaptation efforts, to the order of EUR 175 billion per year in 2020, with half of that going to developing countries. However, the draft is completely open to the manner of financing, stating the EU's "willingness" to explore financing under the principles of "effectiveness, efficiency, equity, transparency, accountability, coherence, predictability, and sound financial management."

¶16. (SBU) Member State representatives have told USEU EconOff that there are likely to be several more changes before the conclusions are adopted in March. Most Member States appear to be in favor of asking major emerging economies to take on binding targets. Finnish, Italian, and French officials told USEU EconOff that most Member States want a graduation of capability and efforts among developing countries, with the Finns arguing that the Commission was not nearly ambitious enough in the Communication. France plans to propose language, though the French official stated that it may need to be vague so as not to "frighten" developing countries.

While it appears that Sweden is in agreement as well, Swedish officials explained to Embassy Copenhagen and Embassy Stockholm EconOffs that it wants to ensure that the comparability criteria is not vulnerable to challenge, particularly by China. Not all countries appear as determined however. Embassy London reports that while the UK would accept binding targets for developing countries, it is only looking for a commitment that ultimately falls short of binding.

¶17. (SBU) The financing aspects of the Communication also appear to be hotly contested by the Member States, with divisions between those that want to see more concrete details and those who prefer more vague terms. As was the case during the debate over the EU's Climate and Energy

Package, Italy will have one of the loudest voices, calling for recognition of the financial crisis and seeking for efforts with concrete effects (likely groundwork for reining in ambitious assistance commitments). The Italian Environment Attache told USEU EconOff that the Council conclusions need to have a reference to the financial crisis, and that instead of money, governments need to focus on alternative mitigation efforts, including expanding CDMs and technology transfer to developing countries. Embassy Rome confirmed this position, reporting that in a closed-door roundtable, Italian Environment Director General Corrado Clini said there needs to be a focus on funding for R&D, where governments can make a difference, adding that there need to be incentives to develop and improve energy efficiency outside of the EU bureaucracy. In contrast, the Finnish and French officials explained to USEU EconOff that some Member States, Denmark in particular, want specific funding figures from developed countries, and that a figure of EUR 30 billion for the EU was removed from the final Communication. However, the Czechs absolutely do not want concrete figures, and the Czech position is likely to be reflected in the March Environment Council conclusions.

European Parliament Reaction

¶18. (SBU) The European Parliament has not yet formally responded to the Communication, other than officially noting its release. However, on February 4, the Parliament adopted a resolution on recommendations for an integrated EU policy on climate change that included a section specifically devoted to external climate change policy and a post-2012 agreement. In that section, Parliament espoused many of the general concepts promoted by the Communication, though not to the same level of detail. Principally, Parliament stressed that the new climate change agreement should come under the auspices of the UN and adhere to the principle of "common but differentiated responsibility," with developed countries committing to domestic emissions reductions and the developing countries taking "nationally appropriate mitigation actions," all in accordance with the Bali Action Plan. Developing countries, Parliament argues, should be supported and enabled by technology, financing, and capacity-building from industrialized countries. Focusing specifically on the United States, the resolution "urges the incoming U.S. administration to live up to expectations," and contribute to the post-2012 framework through the adoption of domestic legislation and active participation in international negotiations. (Note: The full Parliament is up for election in June, and there will be a break in the legislative process during the summer. While it is possible that the incoming Parliament will start the process over and make new recommendations, the Finnish Environment attache told USEU EconOff that it is unlikely there will be many differences from what the current Parliament decides. End note.)

Non-EU OECD Countries' Reactions

¶19. (SBU) Most countries outside of Europe have not had an opportunity to analyze adequately the proposals put forth by the Commission, but representatives of many of the countries listed as developed, including Australia, New Zealand, Japan, Korea, and Mexico, have strong opinions on a number of the provisions. Notably, Australia, New Zealand, and Japan opined that the four criteria used by the EU to determine emissions targets are not acceptable. Instead, the

comparability criteria need to be country specific; just because that set of criteria worked for domestic EU efforts, it does not necessarily apply for all countries. The other key question is whether or not offsets and CDMs are included in the targets. The EU, for example, does not truly have a 20% domestic reduction target; it probably is closer to half that number when CDMs are taken into account. Australia, on the other hand, looks strictly at its domestic emissions when stating targets. Beyond the targets, neither Mexico nor Korea appears willing to accept the designation as developed countries. The Mexican official told USEU EconOffs that Mexico is prepared to accept gradual commitments and emissions caps as a transitional country, and the Korean official said that Korea does not yet accept the EU's position.

Opportunity to engage is now

¶20. (SBU) The release of the Communication and the current debate among the Member States provides an opportunity for the United States to engage and lobby the EU. Despite the Commission proposal, the Member States have indicated that the EU stance toward Copenhagen remains fluid, and that coordination with the United States is welcome. Embassy Rome reports that Environment DG Clini stated publicly that President Obama's new energy plan is an opportunity to open a new U.S.-EU partnership on technological and financial development, and Embassy London reports that in an internal UK government paper on Copenhagen, the UK is in favor of multiple cooperation paths, including a Major Economies type process. Italy also intends to proceed with Major Economies (or similar) leaders' meeting in conjunction with the G8 Summit in July (see Rome 141). Underscoring the EU's readiness for engagement, Embassy the Hague reports that speculation about U.S. policy often dominates internal EU meetings on climate change. The best window of opportunity for influencing the process remains until the first couple of weeks in March, when the Council conclusions are likely to be solidified for adoption by the EU Heads of State on March 20, which will detail the overarching framework for EU policy.

¶21. (SBU) USEU therefore recommends a consolidated U.S. government approach to engaging the EU, which will continue to play a leading role in the negotiations for the Copenhagen UNFCCC. This approach should include both high-level and technical meetings with the EU and its Member States in at least four key areas: mitigation efforts from developed and developing countries; financing; research and development of clean technologies; and technical discussions of cap and trade systems. (Note: USEU will report separately on the EU's ETS and possible lessons learned for subsequent of a U.S. cap and trade systems. End note.) These four areas are the highest priority to the EU, and EU Member States are willing to engage with us at all levels, often citing their desire to cooperate with the Department of State and Special Envoy for Climate Change Todd Stern, the Department of Energy and the EPA on green technology development and energy efficiency, the Department of Treasury on financing in the current financial situation, and the Congress. The EU is looking for U.S. leadership en route to Copenhagen; we will want to use this to ensure EU thinking is in line with U.S.

policy developments.
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